

## Message Text

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ACTION ARA-20

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-07 H-03 INR-10 L-03

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USIA-15 ACDA-19 IO-14 EB-11 AID-20 IGA-02 TRSE-00

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INFO USCINCSO

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C O N F I D E N T I A L SECTION 1 OF 2 BOGOTA 8786

E.O. 11652: N/A

TAGS: PFOR, CO, US

SUBJ: POLICY PROBLEMS FOR COLOMBIA AND THE US IN AN ELECTION YEAR

SUMMARY: THE PASTRANA ADMINISTRATION HAS PROVIDED SOLID, SENSIBLE GOVERNMENT FOR FOUR AND ONE HALF YEARS BUT HAS NEVER DISTINGUISHED ITSELF BY ITS DYNAMISM. NOW, WITH ELECTIONS SIX MONTHS OFF, AND DEPRIVED OF A NUMBER OF EXPERIENCED OFFICIALS WHO HAVE LEFT THEIR POSTS TO RUN FOR OFFICE, THE ADMINISTRATION FINDS ITSELF LESS EFFICIENT AT THE SAME TIME THAT ECONOMIC PROBLEMS INCREASE IN SEVERITY: INFLATION IS UP SHARPLY, THERE IS A SERIOUS BUDGET DEFICIT AND TAX REVENUES ARE NOT KEEPING PACE WITH THE NEED. ELECTORAL CONSIDERATIONS AND A WEAKENED ADMINISTRATION MEAN THAT THE GOVT PROBABLY WILL NOT CORRECT THE FISCAL SITUATION. THEREFORE THE MISSION HAS POSTPONED THE SIGNING OF TWO NEW SECTOR LOANS IN EDUCATION AND AGRICULTURE. WE BELIEVE THE SITUATION TO BE SHORT-TERM AND THAT ONCE THE ELECTIONS ARE OVER ADMINISTRATION WILL BECOME MORE FORCEFUL. UNLESS THE POLITICAL SITUATION CHANGES DRAMATICALLY IN THE NEXT FEW MONTHS, EITHER ALFONSO LOPEZ, THE LIBERAL CANDIDATE, OR ALVARO GOMEZ, THE CONSERVATIVE, WILL WIN THE PRESIDENCY. EITHER MAN CAN BE

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EXPECTED TO PURSUE DOMESTIC AND FOREIGN POLICIES THAT IN THE

MAIN MESH WITH US INTERESTS. END SUMMARY.

1. INFLATION, BUDGETARY DEFICITS AND INSUFFICIENT TAX REVENUES ARE THREE OF THE MOST SERIOUS ECONOMIC PROBLEMS CURRENTLY FACING THE GOVT OF COLOMBIA. THE PROCESS OF TREATING THESE PROBLEMS IN A BALANCED MANNER IS COMPLICATED BY A DECLINE IN THE CAPACITY OF THE ADMINISTRATION AND BY THE APRIL 1974 PRESIDENTIAL AND CONGRESSIONAL ELECTIONS, THE FIRST SINCE THE ESTABLISHMENT OF THE NATIONAL FRONT IN 1958 IN WHICH THE PRESIDENCY IS WIDE OPEN AND PARITY BETWEEN THE TWO TRADITIONAL PARTIES IS NOT REQUIRED IN CONGRESS. THE PURPOSE OF THIS MESSAGE IS TO DISCUSS THESE DEVELOPMENTS MORE FULLY AND ANALYZE THEIR CONSEQUENCES FOR US POLICY.

2. TURNING FIRST TO ECONOMIC QUESTIONS, INFLATION IN COLOMBIA IS RUNNING AT ABOUT 25 PERCENT; THE FIGURE IS SOMEWHAT HIGHER AMONG THE POOR, WHO SPEND MOST OF THEIR EARNINGS ON FOOD. THIS WOULD NOT BE AN ALARMING FIGURE IN MANY COUNTRIES, BUT IT IS IN COLOMBIA, A NATION THAT HAS FOLLOWED A DEVELOPMENTAL PATTERN BASED ON A POLICY OF CHEAP LABOR AND LOW PRICES. NOT ONLY ARE PRICES HIGH, BUT MANY BASIC COMMODITIES SUCH AS WHEAT, MILK AND COOKING OIL ARE IN SHORT SUPPLY. THESE INCREASES AND SHORTAGES ARE SERIOUS AND IN AN EFFORT TO HELP OUT I HAVE STRONGLY URGED THAT WE RESPOND POSITIVELY TO COLOMBIA'S REQUEST FOR PL-480 COMMODITIES.

3. UNLESS THE SITUATION I HAVE DESCRIBED EASES WE CAN EXPECT STRIKES AND DEMONSTRATIONS AND EXTREMIST ELEMENTS MAY WELL BE ABLE TO TURN PROTESTS TO THEIR ADVANTAGE. IN THE EYES OF MANY COLOMBIANS, PROTESTS WILL BE JUSTIFIED; PROFITS ARE UP, COFFEE PRICES ARE HIGH, EXPORTS AND CONSTRUCTION ARE BOOMING, AND BUSINESS AND INDUSTRY ARE GENERALLY IN GOOD SHAPE.

4. WE MIGHT EXPECT THAT IN A PROSPEROUS ECONOMY AFFLICTED BY INFLATION AND SHORTAGE THE GOVERNMENT WOULD IMPROVE ITS TAX COLLECTIONS AND IMPOSE NEW SOURCES OF REVENUE. IT IS AN UNFORTUNATE FACT THAT TAX COLLECTIONS HAVE NOT KEPT PACE WITH INFLATION AND EVASION IS WIDESPREAD. NOR HAS THE GOVERNMENT BEEN ABLE TO GET NEW TAX MEASURES THROUGH THE CONGRESS. THERE IS ALMOST NO CHANCE THAT THE CURRENT SESSION OF CONGRESS WHICH ENDS ON DECEMBER 15 WILL ENACT ANY FISCAL LEGISLATION.

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5. AS A RESULT OF THE GOVERNMENT'S POOR FISCAL PERFORMANCE BUDGET DEFICITS HAVE INCREASED AND CURRENT DEFICITS WILL GO HIGHER AS THE ADMINISTRATION SUBSIDIZES WHEAT AND OTHER PRIMARY FOOD PRODUCTS TO HOLD DOWN FOOD PRICES BETWEEN NOW AND THE ELECTION. THE GOVERNMENT RECENTLY ANNOUNCED A TEN PERCENT REDUCTION IN PUBLIC SPENDING IN AN ATTEMPT TO KEEP THE DEFICITS TO A MORE MANAGEABLE LEVEL. IT REMAINS TO BE SEEN HOW SUCCESSFUL THIS EFFORT

WILL BE; IN MANY CASES IT MAY MEAN NOTHING MORE THAN THE POST-PONEMENT BY A FEW MONTHS OF NECESSARY EXPENDITURES. EVEN IF THE GOVERNMENT WERE TO REDUCE COSTS BY THE FULL TEN PERCENT, WHICH WE DOUBT IT CAN DO, THE YEAR'S DEFICIT WOULD STILL BE ABOUT THE SAME AS LAST YEAR IN REAL TERMS WHICH REPRESENTED A SIZEABLE INCREASE OVER 1971.

6. ANOTHER FACET OF THE OVER-ALL PROBLEM IS THE STYLE OF THE PASTRANA GOVERNMENT AND THE FACT THAT SOME KEY OFFICIALS HAVE RESIGNED IN ORDER TO BE ELIGIBLE FOR ELECTIVE OFFICE. PASTRANA DID NOT IN THE PAST EXERCISE IMAGINATIVE LEADERSHIP, BUT ATTEMPTED TO GOVERN ON THE BASIS OF CONSENSUS. HE IS AS DECISIVE NOW AS AT ANY TIME IN THE PAST, BUT THE ECONOMIC PROBLEMS THAT BESET THE NATION AND THE PROSPECT OF THE ELECTIONS MAKE IT DIFFICULT FOR HIM TO CONTROL HIS BUREAUCRACY AND TO MAKE IT FUNCTION IN A COHERENT MANNER.

7. ONE FACTOR THAT MUST BE CONSIDERED WHEN WE DISCUSS GOC PERFORMANCE IS THE POSSIBILITY THAT LIBERALS AND CONSERVATIVES WILL ACT PARTIALLY ON BEHALF OF THEIR PARTIES. NON-CIVIL SERVICE GOVERNMENT JOBS ARE DIVIDED FIFTY-FIFTY BETWEEN LIBERALS AND CONSERVATIVES AND MANY OFFICIALS ARE IN A POSITION TO INFLUENCE THE ELECTIONS. LIBERAL LEADERS ARE SATISFIED THAT PASTRANA, A CONSERVATIVE, IS AND WILL REMAIN IMPARTIAL, BUT THEY ARE LESS

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C O N F I D E N T I A L SECTION 2 OF 2 BOGOTA 8786

CONFIDENT ABOUT OTHER CONSERVATIVES IN THE ADMINISTRATION.

8. ELECTION CAMPAIGN

TO THE FOREGOING WE MUST ADD THE STRESSES AND STRAINS OF AN ELECTION YEAR. IN ORDER TO REDUCE CIVIL STRIFE AND POLITICAL HUBRIS THE LEADERS OF THE LIBERAL AND CONSERVATIVE PARTIES AGREED IN THE LATE 1950'S TO SHARE POWER FOR 12 YEARS, LATER EXTENDED TO 16 YEARS. THIS YEAR THAT PART OF THE PACT AFFECTING THE PRESIDENCY AND THE CONGRESS COMES TO AN END AND THE LIBERAL AND CONSERVATIVE PARTIES EACH HAVE PRESIDENTIAL CANDIDATES.

9. THE FRONT RUNNER AT THE MOMENT IS THE LIBERAL, ALFONSO LOPEZ MICHELSEN, WHO IN HIS OWN SELF INTEREST WILL ATTEMPT TO AVOID DEMAGOGY AND PROJECT AN IMAGE OF STATESMANSHIP AND MODERATION. WHETHER LOPEZ SUCCEEDS DEPENDS NOT SO MUCH ON HIS OWN INCLINATIONS BUT ON HIS OPPONENTS, THE CONSERVATIVE, ALVARO GOMEZ HURTADO, AND THE THIRD PARTY ANAPO CANDIDATE, MARIA EUGENA ROJAS DE MORENO, THE DAUGHTER OF THE OLD DICTATOR.

10. FOR ALL HIS HIGH INTELLIGENCE AND BREEDING, GOMEZ HAS A  
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REPUTATION FOR USING TOUGH TACTICS WHEN INDICATED. HE HAS ALREADY TOLD US THAT HE COULD NOT EXCLUDE THE POSSIBILITY THAT HIS FOLLOWERS WOULD TAKE THE GLOVES OFF AS THE CAMPAIGN DEVELOPS. MOREOVER IT WOULD BE UNREASONABLE TO EXPECT THAT THE POPULIST, XENOPHOBIC ANAPO WOULD HESITATE TO GO TO EXTREMES IF IT COULD THEREBY IMPROVE ITS CHANCES IN THE PRESIDENTIAL RACE. THE ANAPO CANDIDATE, MRS. MORENO, HAS NO CHANCE OF WINNING BUT HOPES FOR A SIZEABLE CONGRESSIONAL DELEGATION.

11. THE MOST LIKELY WINNER IS LOPEZ, WHO IS A MODERATE DESPITE CONSERVATIVE RHETORIC TO THE CONTRARY. SOME OF LOPEZ' ADVISORS ARE DISAPPOINTED THUS FAR IN HIS VAGUE CAMPAIGN STATEMENTS AND LACK OF TOUGHNESS WITH GOMEZ; IF THEY HAVE THEIR WAY WE CAN EXPECT LOPEZ TO SHARPEN HIS CAMPAIGN AFTER THE FIRST OF THE YEAR. GOMEZ WOULD RESPOND IN KIND AND THE US WOULD INEVITABLY BECOME THE BUTT OF CAMPAIGN RHETORIC. LOPEZ CAN BE COUNTED UPON TO COOPERATE WITH THE US IN MOST AREAS OF DOMESTIC AND FOREIGN POLICY ALTHOUGH WE BELIEVE HE WILL MOVE FAIRLY QUICKLY TO ESTABLISH RELATIONS WITH CUBA AND THE PEOPLES REPUBLIC OF CHINA, AS WELL AS TO IDENTIFY MORE CLOSELY WITH THIRD WORLD ASPIRATIONS. A GOMEZ VICTORY WOULD MEAN A CONTINUATION OF CURRENT GOC POLICIES WITH PERHAPS A SLIGHT TURN TO THE RIGHT ON FOREIGN AFFAIRS. IN ANY EVENT, THE US WILL HAVE LITTLE TROUBLE ACCOMODATING TO EITHER LOPEZ OR GOMEZ, OR THEY TO US.

12. IMPLICATIONS FOR US POLICY. THE OBVIOUS CONCLUSION I BELIEVE IS THAT WE MUST EXERCISE SPECIAL PRUDENCE AND CARE OVER THE NEXT SEVERAL MONTHS TO AVOID BEING DRAWN INTO THE DEVELOPING POLITICAL MAELSTROM.

13. ON THE DIPLOMATIC SIDE THESE CHANGES ARE NECESSARILY MORE OF STYLE AND NUANCE THAN SUBSTANCE. WE WILL NEED TO BE MORE CAREFUL IN DOCUMENTING OUR RESPONSES TO ANY CHANGES IN OUR POLICY WHICH COULD AFFECT THE GOC'S CAPACITY TO PLAN AND EXECUTE PROGRAMS. OUR INABILITY, THUS FAR, TO RESPOND TO THEIR PL480 WHEAT NEEDS IS A GOOD IF UNFORTUNATE EXAMPLE AND WE HAVE LEFT THE GOC UNDER NO ILLUSIONS REGARDING ITS PROSPECTS. IT WILL ALSO MEAN HOLDING THE NUMBER OF HIGH LEVEL VISITS TO A MINIMUM.

14. INEVITABLY, HOWEVER, THE MOST IMPORTANT CHANGE INVOLVES THE AID PROGRAM, THE LARGEST IN LATIN AMERICA, WHICH UNTIL THIS YEAR

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HAS AVERAGED OVER \$80 MILLIONS PER ANNUM.

15. PRIMARILY AS A RESULT OF THE BUDGET SQUEEZE THE GOC HAS BEEN UNABLE TO MEET ITS LOCAL CURRENCY CONTRIBUTION TO THE AID SUPPORTED SECTORS. EVEN BEFORE THE ANNOUNCED TEN PERCENT EXPENDITURE REDUCTIONS THE GOC AND THE MISSION HAD AGREED TO BETWEEN A 15 TO 20 PERCENT MUTUAL REDUCTION IN SECTOR DISBURSEMENTS THIS YEAR. THIS FOLLOWED HIGH LEVEL GOC PUBLIC PRONOUNCEMENTS THAT OUR ASSISTANCE WAS INFLATIONARY AND THAT MORE FLEXIBILITY WAS REQUIRED TO EASE THE SITUATION. AS A RESULT OF THE NEW 10 PERCENT BUDGET CUT WE ARE EXPECTING ANOTHER REDUCTION IN AID TARGETS.

16. AFTER FRANK AND HARMONIOUS DISCUSSIONS, THE AID DIRECTOR AND I HAVE DECIDED TO POSTPONE THE SIGNING OF TWO NEW SECTOR LOANS IN EDUCATION AND AGRICULTURE. IN ADDITION WE ARE INSISTING THE AID DISBURSEMENTS ON SECTO LOANS NOT GET TOO FAR AHEAD OF GOC CONTRIBUTIONS. WE ARE ALSO WATCHING VERY CLOSELY THE GOC TREASURY FLOAT WHICH IN EFFECT ALLOWS AID FUNDS TO BE TEMPORARILY USED TO PAY NON-DEVELOPMENT TYPE EXPENDITURES.

17. LAST FEB, PRESIDENT PASTRANA CRITICIZED THE INTERNATIONAL LENDING AGENCIES REQUIREMENT OF LOCAL COST EXPENDITURE OBLIGATIONS AND SPECIFICALLY POINTED OUT THAT SECTOR LOANS (READ AID) DEMAND MATCHING RESOURCE ALLOCATIONS BY THE DEBTOR COUNTRY. THIS REACTION BY THE PRESIDENT STEMMED FROM OUR PRACTICE OF DISBURSING MOST OF OUR LOANS AND THEN APPLYING PRESSURE IN THE LAST MONTHS OF THE YEAR FOR THE GOC TO COME UP WITH THE NECESSARY COUNTERPART AS A CONDITION PRECEDENT TO OBTAINING NEW LOANS. GIVEN THE LACKLUSTER PERFORMANCE OF THE GOVERNMENT AND THE DIM SHORT TERM PROSPECTS FOR INCREASED EFFICIENCY, I BELIEVE IT IS ONLY PRUDENT

TO NOT REPEAT THIS EXERCISE.

18. I HAVE NOT INTENDED TO PAINT A PESSIMISTIC PICTURE REGARDING THE FUTURE OF COLOMBIA BUT RATHER TO DESCRIBE A DIFFICULT BUT TEMPORARY PROBLEM SITUATION WHICH CALLS FOR, I BELIEVE, A SHIFT FROM AN EXPOSED, AGGRESSIVE POLICY OF ALL OUT COOPERATION WITH THE DEVELOPMENTAL AGENCIES OF THE GOVERNMENT TO A MORE SUBDUED, LESS VULNERABLE POSITION. I WISH TO EMPHASIZE THE TRANSITIONAL NATURE OF THIS SITUATION AND EXPRESS MY CONVICTION THAT WITHIN A VERY SHORT TIME AFTER THE NEW GOVERNMENT TAKES OFFICE WE CAN  
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EXPECT A RETURN TO A COMPETENT, PURPOSEFUL GOVERNMENT COMMITTED TO ECONOMIC AND SOCIAL DEVELOPMENT IN A DEMOCRATIC FRAMEWORK AND ABLE AND WILLING TO UTILIZE OUR BILATERAL ASSISTANCE TO THAT END.  
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